



HOUSE BUDGET COMMITTEE

Democratic Caucus

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Need for Extended Unemployment Benefits Still Exists Despite Recent Job Gains, Long-Term Unemployment Remains High

The number of private-sector American jobs grew by 116,000 in October, the third straight month of job growth. While this is encouraging news, it is important to keep four things in mind. First, there are still millions of workers who want to work but cannot find a job. Since President Bush took office, the economy has lost nearly three million private-sector jobs. Second, three months of data do not a trend make. Third, the unemployment rate barely budged in October. Fourth, the civilian working-age population continues to grow. While total employment increased by 126,000 in October, the working-age population grows on average by 150,000 a month—meaning that there are more workers competing for a more slowly growing number of jobs. Consequently, finding a job in America today takes a lot longer than it used to.

The regular state unemployment compensation program, which generally provides up to 26 weeks of benefits, is not sufficient for the current jobs environment. Democrats recognized this reality and pushed successfully for the creation of the Temporary Extended Unemployment Compensation program (TEUC) in March 2002. TEUC provides an additional 13 weeks of benefits for workers who have exhausted their regular state unemployment benefits without successfully finding new jobs. TEUC is scheduled to close to new entrants after December 31.

Since the creation of TEUC, the number of private-sector jobs has declined by 390,000, the unemployment rate has increased from 5.7 percent to 6.0 percent, and millions of unemployed workers are finding that their TEUC benefits run out before they can find a job. There is growing evidence that Congress should not only extend the program for another six months, but also expand the program to adequately respond to current labor market realities.



Job Market Has Deteriorated Since Creation of TEUC Program

	<u>March 2002</u>	<u>October 2003</u>
<i>Private-Sector Jobs Lost Since March 2001</i>	2.5 million	2.9 million
<i>Unemployment Rate</i>	5.7%	6.0%
<i>Number of Long-Term Unemployed</i>	1.3 million	2.0 million
<i>Percent of Beneficiaries Whose Regular State Unemployment Benefits Run Out Before They Find New Work</i>	36.9%	43.7%*

*Data is for September 2003.

Republicans have repeatedly shown reluctance to continue this vital assistance for the nation's workers. Last winter, TEUC expired on December 28 because the President and House Republicans rejected Democratic efforts to extend the program with a compromise bill that had passed the Senate unanimously. As a result, more than 800,000 displaced workers spent the holiday season worrying about how to pay their bills. After repeated calls by Democrats in December to reinstate the program, Congress finally enacted a six-month extension on January 8. Earlier this year, with TEUC set to close to new entrants after May 31, House Republicans delayed action to extend the program until the final legislative day before the program would have expired.

Under current law, TEUC will be closed to new entrants at the end of December. Democrats have introduced legislation to extend the program for six months and make improvements to it. A separate Republican bill would simply extend the program. The Republican leadership, however, has been silent about scheduling a vote on either bill before adjourning for the year.

The Need for Federal Assistance Remains Acute

There have been eight occasions since the 1950s when Congress has created temporary programs to supplement regular unemployment compensation by providing extended benefits during economic downturns. TEUC is the latest such program. In past downturns, Congress kept the programs going until the labor market demonstrated lasting improvement. In the recessions of the early 1980s and 1990s, for example, Congress and Republican presidents created extended benefit programs that continued until the economy generated millions of new jobs and the number of workers exhausting regular state unemployment benefits showed significant and steady decline. Several economic indicators show that those conditions have not been met so far in this economic cycle:

- The total number of private-sector jobs remains nearly three million below the level in March 2001, when the recession began. Even if the economy were to generate two million new jobs over the next year, as predicted last month by the Treasury Secretary, President Bush would still be the first president since World War II to oversee a net loss of jobs over a four-year term. Moreover, adding two million jobs over the next year will barely cover the expected growth in the working-age population. It will not make a meaningful dent in the jobs deficit that accrued under this Administration.

- The loss of jobs has translated into longer unemployment spells. The number of long-term unemployed (defined as out of work for more than six months) grew to 2.1 million workers in September – the highest level in 11 years – and remained high in October, at 2.0 million. Many individuals receiving unemployment benefits today face the prospect of exhausting their regular benefits before finding new employment. The rate at which recipients exhaust their regular benefits before finding new jobs has hovered close to 44 percent since May – the highest exhaustion rates on record (the data go back to 1972). The exhaustion rate was 36.9 percent when TEUC was created.
- The unemployment rate in October was 6.0 percent, whereas it was 5.7 percent when the TEUC program was created.

Current Program Needs Improvement

Many unemployed workers are finding that the TEUC program does not provide sufficient weeks of benefits to see them through their unemployment spells. Of the 5.7 million workers who started receiving TEUC benefits between March 2002 and May 2003, about two thirds of them, or 3.8 million individuals, were unable to find new employment before their TEUC benefits ran out.¹ Of all workers who have received TEUC since the start of the program, an estimated 1.4 million had exhausted their TEUC benefits and remained unemployed at the end of October.² Under current law, another one million workers are expected to exhaust their TEUC benefits over the next four months without finding new jobs.³ The Republican proposal to simply keep the TEUC program running in its current form for another six months does nothing to help workers who have already used up their TEUC benefits but remain unemployed.

The fact that so many workers are exhausting their TEUC benefits shows that the program is not well designed to meet the needs of unemployed workers in the current economy. TEUC provides only 13 weeks of extended benefits to people who exhaust their regular unemployment benefits, plus another 13 weeks of benefits in a handful of states with particularly high unemployment. The extended benefit program created by Congress during a similar jobs recession in the early 1990s provided between 20 and 26 weeks of benefits, plus additional weeks of benefits in high-unemployment states.

Workers who have exhausted their state and federal unemployment benefits and are still unemployed are among the hardest hit by the weak economy, having been unemployed for nine months or longer. A recent survey found that 62 percent of workers unemployed for nine months or longer have substantially depleted their savings, and just over half have borrowed money to meet basic expenses.

¹Shapiro, Isaac; “The Mismatch Between Federal Unemployment Benefits and Current Labor Market Realities,” Center on Budget and Policy Priorities, October 15, 2003.

²Committee on Ways and Means Democratic staff, October 21, 2003.

³Ibid.

Some claim that workers use unemployment benefits to finance extended periods of leisure, and that they remain unemployed longer because of the benefits. Such a claim is incorrect. Working people need their jobs to support themselves and their families. People are unemployed for extended periods today because, in many parts of the country, there are no jobs to be had – notwithstanding the Administration’s policy of relentless tax cuts. In fact, research suggests that workers who exhaust their regular benefits conduct work searches at levels of intensity equal to or higher than workers who do find employment before their benefits run out.⁴

Democrats support improvements in the TEUC program to better assist unemployed workers until the job market shows substantial and sustained recovery. Representatives Charles Rangel and Benjamin Cardin introduced a bill last month (H.R. 3244) that extends the TEUC program beyond its scheduled close in December, and expands it from the current 13 weeks to a total of 26 weeks of extended benefits for all those who exhaust their regular state benefits. Specifically, the bill:

- continues the program through June 2004;
- provides 26 weeks of extended benefits to all eligible workers who have exhausted their regular state benefits;
- allows unemployed workers who have exhausted their initial 13 weeks of extended benefits under the current TEUC program to re-enter the program and receive another 13 weeks of benefits, to give them the same total of 26 weeks of extended benefits;
- provides an additional seven weeks (on top of the 26 weeks of extended benefits) for unemployed workers in the qualifying states with particularly high unemployment rates; and
- provides temporary federal funding (through December 2004) for states to broaden coverage to low-wage earners and part-time workers.

The Democratic plan will increase government spending by \$17 billion on a one-time basis. Unlike the Republican tax cut plans, this temporary spending boost is well-targeted to put additional resources into the economy now, when they are needed, without contributing to long-term structural deficits.

Conclusion

The President’s economic policies not only have caused structural deficits that will be a drag on the economy in years to come, but also have failed to improve the economic indicator that matters most to American families – the availability of jobs. The Treasury Secretary’s recent prediction that the economy will generate two million jobs over the next year was a significant revision downward from earlier Administration claims that its tax cut package would generate 306,000 jobs a month through the end of 2004. The reality may turn out to be even less impressive than the Secretary’s scaled-back

⁴Congressional Research Service, “Unemployment Compensation/Unemployment Insurance: Trends and Contributing Factors in Benefit Exhaustion,” October 10, 2003.

prediction. In the meantime, unemployed workers need help.

Republicans' reluctance to help long-term unemployed workers serves neither the economy nor the well-being of millions of jobless workers. Workers who exhaust their extended benefits but remain jobless must reduce their spending, with further negative consequences for the economy. Economic research has shown that unemployment compensation is one of the most effective forms of economic stimulus when the economy is soft, because it puts money in the pockets of individuals who will likely need to spend it right away. An analysis by *Economy.com* estimates that each dollar of unemployment benefits boosts the economy by \$1.73. By contrast, each dollar of the dividend tax cuts promoted by the President and Republicans generates only \$0.09 of economic activity.

The Democratic proposal to extend and improve the TEUC program recognizes that unemployed workers need help, and they need it now. They need a safety net they can rely on, not nebulous promises about jobs that may or may not trickle down in the next year. Providing direct assistance to unemployed workers creates a source of economic stimulus where it will do the most good – in the wallets of individuals who are likely to spend it right away, generating economic activity in their own communities.